MULTIMEDIA UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

# FINAL EXAMINATION

TRIMESTER 2, 2017/2018

## BSM3114– MANAGEMENT OF STRATEGY

(ALL SECTIONS)

12 MARCH 2018
9.00 a.m–11.00 a.m
(2 HOURS)

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**INSTRUCTIONS TO STUDENT**

1. This question paper consists of 6 pages.
2. There are **TWO (2) Case Studies**. Attempt **ALL** questions.
3. Please write all your answers in **Answer Booklet** provided.

## CASE STUDY 1: 50 MARKS

### Grocers facing 'Uberisation,' says HappyFresh

INCREASED mobile accessibility and broadband penetration are disrupting the traditional grocery-buying business model, enabling consumers to purchase groceries anywhere, at any time. This is going to lead to the 'Uberisation' of the retail sector, according to Jakarta-headquartered regional online grocer HappyFresh, referring to the US ride-sharing company that is disrupting the public transport industry.

HappyFresh is a grocery shopping company with its headquarters in Jakarta, Indonesia and has operations in Indonesia, Malaysia and Thailand. It was founded in 2014 and launched its new grocery shopping app in Kuala Lumpur in 2015. The app lets consumers order groceries directly from offline supermarkets, and the startup claims orders can be delivered in as little as one hour.

Tesco Stores (Malaysia) Sdn Bhd was founded in 2001, and it is a subsidiary of Tesco PLC. It owns and operates hypermarkets in Malaysia. Currently there are over 50 hypermarkets and there are two distribution centers in Selangor. The product its sells include fresh produce, groceries, household items, and apparel. It also has its own house brand in terms of food and non-food products. Its strategy focuses on low pricing. The growing influence of internet and having two thirds of Malaysian having access to internet has prompted Tesco to launch its grocery home shopping in 2013 and business has grown. There is a wide range of products offered through this shopping method.

In 2016, Tesco Malaysia entered a partnership with online grocery platform HappyFresh to expand its capability to meet on-demand online grocery delivery services in the Klang Valley. The new partnership is expected to benefit customers by offering them express delivery services for their shopping, with items being delivered within an hour of placing their order. Tesco's chief executive officer Paul Ritchie said they had discovered a gap in the market where online shoppers who are pressed for time want to receive their goods within an hour. "By expanding our multi-channel reach through HappyFresh, we continue to serve our customers' online and on-demand shopping experience by making it even more seamless and enjoyable," he says. "Today's consumer lead a different lifestyle, most do not have the time to drive out to a store and buy their groceries weekly. The Internet lets them do all of that at a click of a button," Ritchie explains.

According to the *Ericsson Mobility Report: On the Pulse of the Networked Society*, mobile penetration in the Asia Pacific region (excluding China and India) reached 110% in the first quarter of 2015, surpassing the global average of 99%, HappyFresh said in a statement.

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"We are seeing an 'uberisation' of the retail industry in Asia," said its chief executive officer Markus Bihler."The outlook has never been more promising. Opportunities abound this region with its sophisticated food-loving consumers, growing wealth and rapid uberisation.

"The continued increase in mobile adoption and broadband penetration has helped boost our online grocery sales," he added, without giving specifics. In 2015, HappyFresh secured US$12-million Series A funding led by Vertex Venture, the venture arm of Singapore's Temasek Holdings; and Sinar Mas Digital Ventures (SMDV), the venture arm of Sinar Mas Group of Indonesia.

"Ordering online for home delivery is gaining in popularity in the region ... and we foresee a double-digit growth ahead for the online grocery business," said Bihler. The online grocery markets in Asia are set to reach S$19 billion (US$13 billion) by 2020, according to the latest forecast by HappyFresh. In Indonesia, middle- and upper-income consumers will continue to drive the growth of modern, online retailers.

Meanwhile, spending power and credit card penetration are higher in Kuala Lumpur than in Jakarta, and in general people are more used to buying things online in Kuala Lumpur, the company said. Large supermarkets and hypermarkets are important players in the grocery retail landscape and they will continue to do well and dominate in this region, it added. Many are integrating online delivery service into their business model to make it even easier for tech-savvy, time-crunched consumers.

**Other driving forces**

The increased popularity of online grocery shopping in Asia has also been fuelled by two social 'developments' – traffic congestion and long working hours, HappyFresh said in its statement. Three South-East Asian cities (Jakarta, Bangkok and Surabaya) are in the Top 10 cities with the worst traffic congestion globally, according to a survey conducted by Castrol and Tom Tom. Because of this, few people want to push their way through a crowded supermarket after a long day at work, said HappyFresh.

Secondly, Asian countries also tend to have the longest working hours – they have the highest proportion of people who spend more than 48 hours a week at work. This number is expected to rise as Asia becomes even more affluent, the company said.

"Customers are also becoming very selective when it comes to quality foods. A Nielsen study shows that today's shoppers are seeking fresh, natural and minimally processed foods with ingredients that help fight disease and promote good health," said Bihler. "This presents a tremendous opportunity among niche consumer segments, especially in the healthy eating space, and other categories that may be more difficult to find on in-store shelves. As a result, a number of speciality retailers have emerged in the health and wellness space, from national online grocery delivery services with extensive fresh sections to local product delivery services," he added.

**Continued...**

**Buying groceries with one click**

Consumers are embracing technologies that enable them to buy groceries with one click rather than having to walk to bricks-and-mortar stores to get what they need, with the average shopping basket growing by 66% between the first and third order, according to HappyFresh.

Shopping patterns vary from market to market, according to the company's proprietary survey of shoppers across five countries. Online purchase of groceries peaks at about 5pm on weekdays and 10am during the weekends and on Monday. This means that customers enjoy shopping toward the end of working hours, or like to get their shopping done during the weekend or early on Monday (so they don't need to worry about groceries for the rest of the week). About 75% of online grocery shoppers are between 25 and 44 years old. The majority of online grocery shoppers are women. They place their orders weekly, and fresh produce accounts for 50% of every order. Working mothers outnumber all other customers buying groceries online. The top five most ordered items are milk, eggs, onions, bananas and, naturally, baby diapers. The second biggest group is young professionals and expatriates, whose top buys are tomatoes, spaghetti, coke and chicken breast.

Source:
https://www.digitalnewsasia.com/grocers-facing-%E2%80%98uberisation%E2%80%99-says-happyfresh
https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=9068769
https://www.tescoplc.com/about-us/our-businesses/tesco-malaysia/tesco-in-malaysia/
https://www.digitalnewsasia.com/business/tesco-malaysia-and-happyfresh-announce-online-partnership
https://www.techinasia.com/indonesia-malaysia-grocery-delivery-happyfresh

a) Determine why "Uberisation of the retail sector" happened and explain any **FOUR (4)** general environmental segments that are critical in providing opportunities or causing threat for HappyFresh and Tesco.

(25 marks)

b) Handling customer relationships is critical for any businesses and it focuses on the "who, what and how". In applying the concept of handling customer relationship, point out how Tesco can manage "who, what and how".

(5 marks)

c) Using your knowledge of the retail industry and the value chain, provide suggestions on any of the **FOUR (4)** value chain activities on how Tesco can improve their operation.

(20 Marks)
**(TOTAL: 50 MARKS)**
**Continued...**

## CASE STUDY 2: 50 MARKS

### Toshiba: What's going wrong?

Until late December, 2016 had been a decent year for Toshiba. Then a bombshell. The Japanese industrial giant warned of a big one-off hit at its US nuclear business. At the time we did not know quite how huge that loss would be. But by February it emerged it would be about $6.3bn (£5.05bn). Toshiba's chairman resigned, the firm delayed releasing its full financial figures - initially for a month - and then even longer. To plug the gap, Toshiba is set to sell a majority stake in its NAND flash-memory business to get it through its ongoing financial turbulence.

What has gone wrong?

Most people still recognise the name Toshiba for its electrical products but that is no longer at the heart of its business. Today Toshiba is a very diverse conglomerate, and these latest problems stem from its nuclear services business which brings in about a third of its revenue. Toshiba had initially alerted investors in December 2016 to the fact that it faced a heavy one-off loss linked to a deal done by its US nuclear subsidiary, Westinghouse Electric. Westinghouse bought a nuclear construction and services business from Chicago Bridge & Iron (CB&I) in 2015. But assets that it took on are likely to be worth less than initially thought, and there is also a dispute about payments that are due. Toshiba has also reported "inefficiencies" in the labour force at CB&I, along with other factors driving up costs.

So what now?

Toshiba hopes its saviour will be another major part of its business, the unit that makes memory chips for smartphones and computers, which has been valued at between $9bn and $13bn. It is the second largest chip maker in the world, behind Samsung. On 27 January, Toshiba announced it would split off this part of the business from the rest of the company - with plans to sell a slice of it to raise much-needed funds to help offset the losses in the nuclear division. Initially the idea was to sell a small chunk of this business, about 20%, but now Toshiba finds itself in such dire straits that it may have to shed a larger proportion of this NAND memory unit. A 20% sale would raise more than $2bn, which may not be sufficient given the current difficulties. Also would-be buyers are likely to try and negotiate a knockdown price. The Development Bank of Japan has been talked about as one potential investor. Industry rivals including Canon and Western Digital are also thought to be eyeing a bid, and another potential buyer could be South Korea firm, SK Hynix.

It wouldn't be the first time in recent memory Toshiba has sold off profitable ventures. Its medical devices business (making things like MRI, ultrasound and X-ray equipment) was snapped up by Canon in 2016 for $5.9bn.

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What does this mean for Toshiba's reputation?

It seems somebody, somewhere got the numbers wrong or did not anticipate the scale of problems in the nuclear business, and that reflects badly on the firm's management. Also, the fiasco of its earnings announcement will not have helped. Toshiba has not release its figures as scheduled in February, then missed another self-imposed deadline a month later. It did however release earnings guidance and unaudited numbers, with the promise of audited figures in a month. In addition, Toshiba is still struggling to recover after it emerged in 2015 that profits had been overstated for seven years, prompting the chief executive to resign.

What are the prospects for Toshiba's nuclear business?

Toshiba's nuclear business has not made a profit since 2013. And while the firm has said the huge writedown will be a one-off, nuclear services globally are struggling. Since the Fukushima disaster in 2011, nuclear energy has been a much harder sell. Some governments have opted to scale back how much they planned to rely on nuclear as an electricity source, or - as in the case of Taiwan - turn away from nuclear energy altogether to focus on renewables. Big nuclear projects around the world have faced heavy delays, partly caused by a lack of skilled workers needed to meet regulatory standards. For example in the US, Westinghouse (which Toshiba bought in 2006) is working on two new generation nuclear reactors in Georgia and South Carolina which are running late and over budget. By filing for Chapter 11 bankruptcy, Westinghouse will be able to renegotiate or break its construction contracts - although the businesses that own the projects are working on would likely seek damages. Chapter 11 bankruptcy - temporarily shelters struggling firms as they try to restructure their affairs and outstanding debts. All this comes as it struggles to turn the corner after a profit-inflating scandal.

Two years have passed since a damaging accounting scandal surfaced at the famed manufacturer that once played a leading role in Japan's infrastructure development and home appliance industry. How did things come to this point?

Dysfunctional decision-making

The blame for Toshiba's plight starts with the reckless decision-making and negligence of successive previous presidents. But although these three former chiefs-- Atsutoshi Nishida, Norio Sasaki and Hisao Tanaka -- are gone, the group's corporate governance remains dysfunctional. The trio have faced lawsuits in Tokyo and three other district courts. But the accounting scandal they presided over -- in which Toshiba confessed to overstating profits by more than 230 billion yen ($2 billion) -- was only the beginning of its problems. Indeed, since the three executives retired, the company has been hit with over 1 trillion yen in losses related to Westinghouse Electric, its bankrupt former U.S. nuclear power subsidiary.

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Although Toshiba has finally reached a crucial deal to sell its prized memory chip business, the troubled Japanese conglomerate has a long way to go to emerge from its crisis. When Toshiba sells the memory unit, it will be left with few attractive businesses with which to resume growth.

Particularly vexing is the company's continued susceptibility to interference by banks, political and business circles and the bureaucracy -- a problem that stems from inadequate corporate governance and a decision-making mechanism that allows government participation. The global financial crisis and the Fukushima meltdowns in March 2011 presented opportunities for Toshiba to change course. But the company instead maintained a policy of exporting nuclear reactors, unable to refuse the call of a government-backed "nuclear renaissance" that never materialized. Toshiba became an agency of state policy, while depending on government funds for restructuring unprofitable businesses such as liquid crystal display panels, and for overseas mergers and acquisitions.

Sources:
http://www.bbc.com/news/business-38456275
https://asia.nikkei.com/Spotlight/Toshiba-in-Turmoil/The-roots-of-Toshiba-s-governance-problems-run-deep

a) Toshiba is said to be a diverse conglomerate. Provide evidence for it being a conglomerate.

(5 marks)

b) Which strategy is Toshiba using to solve its financial problem? Justify whether is it a wise move?

(10 marks)

c) Point out the **TWO (2)** main problems that occurred when Westinghouse Electric (a subsidiary of Toshiba) acquired Chicago Bridge & Iron (CB&I)'s nuclear construction and services business in 2015.

(10 marks)

d) Discuss your understanding of corporate governance including the various mechanism. How is the corporate governance mechanism level in Toshiba? Justify your answers with explanation.

(25 marks)

**(TOTAL: 50 MARKS)**

**End of paper**